

CITY OF MARQUETTE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-5
Management's Discussion and Analysis		6-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets-Cash Basis	A	14
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	16
Notes to Financial Statements		17-23
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis)-All Governmental Funds and Proprietary Funds		25
Notes to Required Supplementary Information - Budgetary Reporting		26
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances-Nonmajor Governmental Funds	1	28
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances-Nonmajor Proprietary Funds	2	29
Statement of Indebtedness	3	30
Note Maturities	4	31
Schedule of Receipts by Source and Disbursements by Function-All Governmental Funds	5	32
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		33-34
Schedule of Findings		35

CITY OF MARQUETTE

Officials

<u>Name</u>	<u>Title</u> (Before January, 2006)	<u>Term Expires</u>
John Ries	Mayor	Jan. 2006
Norma Mason	Mayor Pro tem	Jan. 2008
Galen McShane	Council Member	Jan. 2006
Terry Dickens	Council Member	Jan. 2006
Amy Diehl	Council Member	Jan. 2006
Norb Hammes	Council Member	Jan. 2008
(After January, 2006)		
John Ries	Mayor	Jan. 2008
Norma Mason	Mayor Pro tem	Jan. 2008
Norb Hammes	Council Member	Jan. 2008
Tracy Melver	Council Member	Jan. 2010
Mary Jo Pirc	Council Member	Jan. 2010
Darren Matthew	Council Member	Jan. 2010
Denise Schneider	Clerk/Treasurer	Resigned Oct. 22, 2005
Maryanne Trudo	Clerk/Treasurer	Indefinite
Michael Puksich	City Manager (Hired May 1, 2006)	Indefinite
James Garrett	City Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Marquette, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Marquette's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Marquette as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2006 on our consideration of the City of Marquette's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 25 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Marquette's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa 52043

November 27, 2006

Dietz, Donald & Company
Dietz, Donald and Company, CPAs
FEIN 42-1172392

CITY OF MARQUETTE

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MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Marquette provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities decreased 6.5%, or approximately \$ 137,000 from fiscal 2005 to fiscal 2006. Property tax decreased approximately \$ 36,000, grants decreased \$ 74,000 and the gaming wager tax decreased \$ 22,000.

Disbursements and transfers of the City's governmental activities increased 31.6%, or approximately \$ 424,000, in fiscal 2006 from fiscal 2005. Capital projects disbursements increased approximately \$ 364,000. General government disbursements increased approximately \$ 23,000.

The City's total cash basis net assets increased 5.9%, or approximately \$ 201,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$ 198,000 and the assets of the business type activities increased by approximately \$ 3,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state and federal grants, and gaming revenues finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment and 3) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$ 3.418 million to \$ 3.615 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Receipts:		
Program receipts:		
Charges for service	\$ 217	241
Operating grants, contributions, and restricted interest	40	88
Capital grants, contributions, and restricted interest	0	26
General receipts:		
Property tax	405	441
Local option sales tax	25	24
Gaming wager tax	1,187	1,209
Grants not restricted to specific purpose	0	2
Unrestricted investment earnings	80	66
Other general receipts	9	3
Total receipts	<u>1,963</u>	<u>2,100</u>
Disbursements and transfers:		
Public safety	148	140
Public works	175	163
Health and social services	0	1
Culture and recreation	72	66
Community and economic development	1	1
General government	186	163
Debt service	315	302
Capital projects	849	485
Transfers, net	20	20
Total disbursements and transfers	<u>1,766</u>	<u>1,341</u>
Increase in cash basis net assets	197	759
Cash basis net assets beginning of year	<u>3,418</u>	<u>2,659</u>
Cash basis net assets end of year	<u>\$ 3,615</u>	<u>3,418</u>

The City's total receipts for governmental activities decreased 6.5% or \$ 137,000. The total cost of all programs and services increased by approximately \$ 424,000, or 31.6%, with no new programs added this year. The significant increase in disbursements was primarily the result of spending \$ 546,000 on street projects in 2006 as compared to \$ 69,000 in 2005.

The cost of all governmental activities this year was \$ 1.746 million compared to \$ 1.321 million last year. However, as shown in the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was only \$ 1.488 million because some of the cost was paid by those directly benefited from the programs (\$ 217,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 40,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2006 from approximately \$ 355,000 to approximately \$ 257,000. The City paid the remaining "public benefit" portion of governmental activities with approximately \$ 430,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest (\$ 80,000) and gaming wager revenues (\$ 1.187 million).

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	\$ 70	73
Sewer	62	67
Sale of equipment	1	6
Transfers	20	20
	<hr/>	<hr/>
Total receipts and transfers	153	166
	<hr/>	<hr/>
Disbursements:		
Water	70	82
Sewer	80	89
Total disbursements	150	171
	<hr/>	<hr/>
Increase (decrease) in cash balance	3	(5)
	<hr/>	<hr/>
Cash basis net assets beginning of year	12	17
	<hr/>	<hr/>
Cash basis net assets end of year	<u>\$ 15</u>	<u>12</u>

Total business type activities receipts and transfers for the fiscal year were \$ 153,000 compared to \$ 166,000 last year. The cash balance increased by approximately \$ 3,000 from the prior year. Total disbursements for the fiscal year decreased by 12.3% to a total of \$ 150,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Marquette completed the year, its governmental funds reported a combined fund balance of \$ 3,615,354 an increase of \$ 197,849 above last year's total of \$ 3,417,505. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 185,846 from the prior year to \$ 3,598,225. The General Fund loaned \$ 600,000 to the Urban Renewal Tax Increment Fund and transferred nearly \$ 165,000 to other capital projects funds. In 2005 capital projects transfers were only \$ 322,000.

TIF revenues were used as follows: \$ 300,095 for debt service and nearly \$ 680,000 in transfers to capital projects funds. These were financed with \$ 384,135 in tax increment financing collections and a \$ 600,000 loan from the General Fund, leaving a \$ 4,100 balance at June 30, 2006.

The Capital Projects, Streets Fund, disbursed \$ 545,762 during the current fiscal year. Most of these funds were spent on the Antimonopoly Street project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 19, 2006 and resulted in an increase of \$ 618,000 in budgeted disbursements. However, because actual disbursements did not exceed the original budget, the amendment proved to be unnecessary.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$ 295,000 in long-term debt, \$ 300,000 less than last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2006	2005
General obligation notes	\$ 295	595

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 295,000 is below its constitutional debt limit of \$ 915,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Marquette's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is revenue from the gaming boat. Total gaming boat revenues for the years ended June 30, 2006, 2005, and 2004 were \$ 1.367 million, \$ 1.389 million, and \$ 1.400 million respectively. New gaming facilities in Iowa could continue to put downward pressure on these receipts.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$ 2.3 million, an increase of 8% over the fiscal 2006 budget. Budgeted disbursements are expected to increase by approximately \$ 501,000. The City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$ 1.1 million by the close of 2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Maryanne Trudo, City Clerk, 88 North Street, Marquette, Iowa.

Basic Financial Statements

Exhibit A

CITY OF MARQUETTE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2006

FUNCTIONS/PROGRAMS:	Disbursements	Charges for Service	Program Services		Net (Disbursements) Receipts and	
			Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
Governmental activities:						
Public safety	\$ 147,682	76,544	0	(71,138)	0	(71,138)
Public works	174,498	24,588	39,850	(110,060)	0	(110,060)
Health and social services	316	0	0	(316)	0	(316)
Culture and recreation	72,257	114,173	0	41,916	0	41,916
Community and economic development	632	0	0	(632)	0	(632)
General government	185,976	2,145	0	(183,831)	0	(183,831)
Debt service	315,095	0	0	(315,095)	0	(315,095)
Capital projects	848,681	0	0	(848,681)	0	(848,681)
Total governmental activities	1,745,137	217,450	39,850	(1,487,837)	0	(1,487,837)
Business type activities:						
Water	70,092	69,672	0	0	(420)	(420)
Sewer	80,201	62,395	0	0	(17,806)	(17,806)
Total business type activities	150,293	132,067	0	0	(18,226)	(18,226)
Total	\$ 1,895,430	\$ 349,517	\$ 39,850	\$ (1,487,837)	\$ (18,226)	\$ (1,506,063)
GENERAL RECEIPTS						
Property tax levied for:						
General purposes				20,967	0	20,967
Tax increment financing				384,135	0	384,135
Local option sales tax				25,262	0	25,262
Gaming wager tax				1,186,806	0	1,186,806
Unrestricted interest on investments				79,727	0	79,727
Miscellaneous				8,789	1,225	10,014
Transfers				(20,000)	20,000	0
Total general receipts and transfers				1,685,686	21,225	1,706,911
Change in cash basis net assets				197,849	2,999	200,848
Cash basis net assets beginning of year				3,417,505	12,450	3,429,955
Cash basis net assets end of year				\$ 3,615,354	15,449	\$ 3,630,803
CASH BASIS NET ASSETS:						
Restricted:						
Street				\$ 13,029	0	13,029
Urban renewal purposes				4,100	0	4,100
Unrestricted				3,598,225	15,449	3,613,674
TOTAL CASH BASIS NET ASSETS				\$ 3,615,354	15,449	\$ 3,630,803

See notes to financial statements.

CITY OF MARQUETTE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2006

	General	Special Revenue Urban Renewal Tax Increment	Capital Projects Streets	Other Nonmajor Governmental Funds	Total
Receipts:					
Property tax	\$ 20,967	0	0	0	20,967
Tax increment financing	0	384,135	0	0	384,135
collections	1,212,068	0	0	0	1,212,068
Other city tax	2,145	0	0	0	2,145
licenses and permits	268,900	0	0	0	268,900
Use of money and property	5,087	0	0	34,763	39,850
Intergovernmental	24,588	0	0	0	24,588
Charges for service	6,140	0	0	4,193	10,333
Miscellaneous	1,539,895	384,135	0	38,956	1,962,986
Total receipts					
	1,539,895	384,135	0	38,956	1,962,986
Disbursements:					
Operating:					
Public safety	147,682	0	0	0	147,682
Public works	147,638	0	0	26,860	174,498
Health and social services	316	0	0	0	316
Culture and recreation	72,257	0	0	0	72,257
Community and economic	632	0	0	0	632
development	185,976	0	0	0	185,976
General government	15,000	300,095	0	0	315,095
Debt service	0	0	545,762	302,919	848,681
Capital projects	569,501	300,095	545,762	329,779	1,745,137
Total disbursements					
	970,394	84,040	(545,762)	(290,823)	217,849
Excess (deficiency) of receipts over (under) disbursements	0	600,000	545,762	298,726	1,444,488
Other financing sources (uses):	(784,548)	(679,940)	0	0	(1,464,488)
Operating transfers in					
Operating transfers out	(784,548)	(79,940)	545,762	298,726	(20,000)
Total other financing sources (uses)	185,846	4,100	0	7,903	197,849
Net changes in cash balances	3,412,379	0	0	3,126	3,417,505
Cash balances beginning of year	\$ 3,598,225	4,100	0	13,029	3,615,354
Cash balances end of year					
Unreserved:					
General fund	\$ 3,598,225	0	0	0	3,598,225
Special revenue funds	0	4,100	0	13,029	17,129
Total cash basis fund balances	\$ 3,598,225	4,100	0	13,029	3,615,354

See notes to financial statements.

CITY OF MARQUETTE
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2006

	Nonmajor Proprietary Funds
Operating receipts:	
Charges for service	\$ 132,067
Operating disbursements:	
Business type activities	<u>150,293</u>
Deficiency of operating receipts under operating disbursements	<u>(18,226)</u>
Non-operating receipts:	
Miscellaneous	1,225
Operating transfers in	<u>20,000</u>
Total non-operating receipts	<u>21,225</u>
Net change in cash balances	2,999
Cash balances beginning of year	<u>12,450</u>
Cash balances end of year	<u><u>\$ 15,449</u></u>

See notes to financial statements.

CITY OF MARQUETTE
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Marquette is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1860 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Marquette has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City. City officials are members of the following boards and commissions and organizations: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and the Mar-Mac Unified Law Enforcement District. As described in note 8, the City's participation in the Mar-Mac Unified Law Enforcement District meets the criteria of a joint venture since there is an ongoing financial responsibility for the City.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the

nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net assets are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. All enterprise funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

Capital Projects

The Streets Fund is used to account for disbursements on major street reconstruction projects (primarily Antimonopoly Street).

The City has no major proprietary funds.

C. Measurement Focus and Basis of Accounting

The City of Marquette maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered openend management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipts) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City. At June 30, 2006 the City had \$ 2,992,012 invested in certificates of deposit with maturities ranging from 4 to 274 days.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30	General Obligation Notes	
	Principal	Interest
2007	\$ 295,000	8,112

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$ 7,970, \$ 8,379 and \$ 8,171, respectively, equal to the required contribution for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death.

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,000
Sick pay	<u>3,000</u>
Total	<u>\$ 10,000</u>

This liability has been computed based on rates of pay as of June 30, 2006.

(6) Risk Management

The City of Marquette is exposed to various risks of loss related

to torts, thefts, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks exceeded commercial insurance coverage by \$ 32,000 in 2004. The City received approximately \$ 26,000 in public assistance grants to defray the cost of the Mississippi River and Bloody Run floods.

(7) Excursion Gambling Boat Dock Site Lease Agreement

On June 10, 1994, the City entered into a dock site lease agreement with a Company to operate and manage casino gambling on excursion gambling boats and related activities in and about the City of Marquette. The dock site lease agreement provided docking facilities for a twenty five year term beginning June 10, 1994. The agreement provides that the Company pay the City (a) \$ 105,000 per year payable in equal monthly installments; (b) twenty five cents per ticketed passenger payable monthly; (c) two and one-half percent of the net gambling receipts in excess of \$ 10,000,000 per year; and (d) fifty cents per passenger admission pursuant to Chapter 99F.10 of the Code of Iowa and the City ordinance for dock site rental. Additionally, the City provides 24 hour public safety protection for \$ 75,000 per year payable monthly.

(8) Joint Venture

The City participates in a joint law enforcement district known as Mar-Mac Unified Law Enforcement District, which provides police protection and law enforcement services to its participants. The District was created and operates under Chapter 28E of the Code of Iowa. The District is governed by a five member board, two of whom are appointed by the Mayor of Marquette subject to approval by a majority vote of the City Council. In accordance with the 28E Agreement creating the District, the City shall appropriate and pay to the District each fiscal year a sum equal to 65% of the District's budget for the year. The City shall pay to the District one-fourth of the City's share of the budget amount on or before July 10, October 10, January 10, and April 10 each year. The City's share of the District's budget for the fiscal year ended June 30, 2006, was \$ 132,304. The City's share of the District's budget for the fiscal year ended June 30, 2007 shall be approximately \$ 148,000. The Mar-Mac Unified Law Enforcement District issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: MarMac Police District; P.O. Box 340; McGregor, Iowa 52157-0340.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows.

Transfer to	Transfers from	Amount
Special Revenue:		
Urban Renewal Tax Increment	General	<u>\$ 600,000</u>
Capital Projects:		
Streets	Special Revenue Urban Renewal Tax Increment	<u>545,762</u>
Buildings	General	<u>81,527</u>
Eagle Crest	Special Revenue: Urban Renewal Tax Increment	<u>20,823</u>
Downtown Project	Special Revenue: Urban Renewal Tax Increment	<u>11,882</u>
Roundhouse Project	Special Revenue: Urban Renewal Tax Increment	<u>31,807</u>
River Front	Special Revenue: Urban Renewal Tax Increment	<u>750</u>
Waterwell/Reservoir	General	<u>47,222</u>
Pleasant Ridge	Special Revenue: Urban Renewal Tax Increment	<u>44,608</u>
Ball Park Improvement	General	35,799
	Special Revenue: Urban Renewal Tax Increment	<u>24,308</u>
		<u>60,107</u>
Enterprise:		
Sewer	General	<u>20,000</u>
Total		<u>\$ 1,464,488</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) Commitments

The City had entered into construction contracts totaling \$ 470,460 at June 30, 2006. At June 30, 2006 \$ 53,997 had been disbursed under these contracts.

(11) Subsequent Events

In July, August and Septemeber, 2006 the City awarded additional construction contracts of \$ 1,116,734 for water improvement and sewer extension projects. These projects will be financed with tax increment financing collections and cash balances on hand at June 30, 2006.

12) SIGNIFICANT CONCENTRATION OF CREDIT RISK

Receipts from one business comprised approximately 66% of the City's total receipts for the fiscal year ended June 30, 2006.

Required Supplementary Information

CITY OF MARQUETTE
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2006

	Governmental Funds		Proprietary Funds		Total	Budgeted Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
Receipts:								
Property tax	\$ 20,967		0		20,967	19,136	19,136	1,831
Tax increment financing collections	384,135		0		384,135	384,609	384,609	(474)
Other city tax	1,212,068		0		1,212,068	1,176,050	1,241,050	(28,982)
Licenses and permits	2,145		0		2,145	1,290	1,290	855
Use of money and property	268,900		0		268,900	254,000	254,000	14,900
Intergovernmental	39,850		0		39,850	38,000	38,000	1,850
Charges for service	24,588		132,067		156,655	180,900	180,900	(24,245)
Miscellaneous	10,333		1,225		11,558	401,050	5,050	6,508
Total receipts	1,962,986		133,292		2,096,278	2,455,035	2,124,035	(27,757)
Disbursements:								
Public safety	147,682		0		147,682	159,976	159,976	12,294
Public works	174,498		0		174,498	204,500	204,500	30,002
Health and social services	316		0		316	2,070	2,070	1,754
Culture and recreation	72,257		0		72,257	91,200	91,200	18,943
Community and economic development	632		0		632	10,635	10,635	10,003
General government	185,976		0		185,976	224,350	224,350	38,374
Debt service	315,095		0		315,095	315,395	315,395	300
Capital projects	848,681		0		848,681	1,017,000	1,635,000	786,319
Business type activities	0		150,293		150,293	232,550	232,550	82,257
Total disbursements	1,745,137		150,293		1,895,430	2,257,676	2,875,676	980,246
Excess (deficiency) of receipts over (under) disbursements	217,849		(17,001)		200,848	197,359	(751,641)	952,489
Other financing sources, net	(20,000)		20,000		0	532,786	0	0
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	197,849		2,999		200,848	730,145	(751,641)	952,489
Balances beginning of year	3,417,505		12,450		3,429,955	2,970,665	3,429,955	0
Balances end of year	\$ 3,615,354		15,449		3,630,803	3,700,810	2,678,314	952,489

See accompanying independent auditor's report.

CITY OF MARQUETTE

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 618,000. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

Schedule 1

CITY OF MARQUETTE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2006

	Capital Projects									
	Special Revenue	Road Use Tax	Buildings	Eagle Crest	Downtown Project	Roundhouse Project	River Front	Waterwell Reservoir	Pleasant Ridge	Ballpark Improvement
Receipts:										
Intergovernmental	\$ 34,763	0	0	0	0	0	0	0	0	0
Miscellaneous	0	0	0	4,193	0	0	0	0	0	0
Total receipts	34,763	0	0	4,193	0	0	0	0	0	0
Disbursements:										
Operating:										
Public works	26,860	0	0	0	0	0	0	0	0	0
Capital projects	0	81,527	20,823	16,075	31,807	750	47,222	44,608	60,107	302,919
Total disbursements	26,860	81,527	20,823	16,075	31,807	750	47,222	44,608	60,107	329,779
Excess (deficiency) of receipts over (under) disbursements	7,903	(81,527)	(20,823)	(11,882)	(31,807)	(750)	(47,222)	(44,608)	(60,107)	(290,823)
Other financing sources:										
Operating transfers in	0	81,527	20,823	11,882	31,807	750	47,222	44,608	60,107	298,726
Net change in cash balances	7,903	0	0	0	0	0	0	0	0	0
Cash balances beginning of year	5,126	0	0	0	0	0	0	0	0	0
Cash balances end of year	\$ 13,029	0	0	0	0	0	0	0	0	0
										13,029

See accompanying independent auditor's report.

CITY OF MARQUETTE
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2006

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 69,672	62,395	132,067
Operating disbursements:			
Business type activities	<u>70,092</u>	<u>80,201</u>	<u>150,293</u>
Deficiency of operating receipts under operating disbursements	<u>(420)</u>	<u>(17,806)</u>	<u>(18,226)</u>
Non-operating receipts:			
Miscellaneous	1,003	222	1,225
Operating transfers in	<u>0</u>	<u>20,000</u>	<u>20,000</u>
Total non-operating receipts	<u>1,003</u>	<u>20,222</u>	<u>21,225</u>
Net change in cash balances	583	2,416	2,999
Cash balances beginning of year	<u>6,528</u>	<u>5,922</u>	<u>12,450</u>
Cash balances end of year	<u>\$ 7,111</u>	<u>8,338</u>	<u>15,449</u>

See accompanying independent auditor's report.

CITY OF MARQUETTE
STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2006

Schedule 3

Description	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Water improvements	Jul 1, 1989	Called	\$ 155,000	15,000	0	15,000	0	0
Downtown revitalization	Mar 1, 2003	2.45%-2.75%	835,000	580,000	0	285,000	295,000	15,095
				\$ 595,000	0	300,000	295,000	15,095

See accompanying independent auditor's report.

CITY OF MARQUETTE
 NOTE MATURITIES
 June 30, 2006

<u>Year Ending June 30,</u>	<u>General Obligation Notes</u>	
	<u>Downtown Revitalization</u>	
	<u>Issued Mar 1, 2004</u>	
	<u>Interest</u>	
	<u>Rates</u>	<u>Amount</u>
2007	2.75%	<u>\$ 295,000</u>

See accompanying independent auditor's report.

CITY OF MARQUETTE
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 20,967	10,102	39,417	4,168
Tax increment financing collections	384,135	430,377	264,392	402,056
Other city tax	1,212,068	1,232,376	1,245,022	1,129,457
Licenses and permits	2,145	2,180	2,198	2,466
Use of money and property	268,900	255,990	251,337	260,915
Intergovernmental	39,850	114,698	82,907	287,860
Charges for service	24,588	25,108	25,176	23,085
Miscellaneous	10,333	24,485	58,858	3,161
Total	<u>\$ 1,962,986</u>	<u>2,095,316</u>	<u>1,969,307</u>	<u>2,113,168</u>

Disbursements:

Operating:

Public safety	\$ 147,682	140,173	137,888	144,914
Public works	174,498	162,829	115,346	152,890
Health and social services	316	1,053	1,053	1,839
Culture and recreation	72,257	65,722	63,928	64,037
Community and economic development	632	831	10,526	7,726
General government	185,976	163,021	171,283	145,222
Debt service	315,095	301,538	0	163,202
Capital projects	848,681	484,750	1,553,156	1,983,431
Total	<u>\$ 1,745,137</u>	<u>1,319,917</u>	<u>2,053,180</u>	<u>2,663,261</u>

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Marquette, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 27, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Marquette's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marquette's financial statements are free of material misstatement,

we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.


Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Marquette and other parties to whom the City of Marquette may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Marquette during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

November 27, 2007


Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF MARQUETTE
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Findings Related to Required Statutory Reporting

1. **Certified Budgt** - Disbursements for the year ended June 30, 2006 did not exceed the amounts budgeted.
2. **Questionable Disbursements** - We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.
3. **Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
4. **Business Transactions** - No business transactions between City and City officials or employees were noted.
5. **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. **Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.
7. **Deposits and Investments** - No instances on non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.